

Message Text

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2090

INFO AMEMBASSY SEOUL PRIORITY

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USADB

FOR NAC AGENCIES

E. O. 11652: ADS, DECLAS 10/8/77

TAGS: EAID, EFIN, KS

SUBJECT: PROPOSED ADB LOAN TO KOREA FOR NAKDONG RIVER BASIN
DEVELOPMENT PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$45.0 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF KOREA TO
FINANCE FOREX COST OF INTEGRATED AGRICULTURAL DEVELOPMENT
PROJECT AS FIRST PHASE OF OVERALL DEVELOPMENT OF NAKDONG
RIVER BASIN IN GYEONGSANGBUK PROVINCE SOUTHEAST OF SEOUL.
PROPOSED PROJECT IS AIMED PRIMARILY AT FLOOD CONTROL, BUT
ALSO AT INCREASES IN AGRICULTURAL PRODUCTION THROUGH CON-
STRUCTION OF AGRICULTURAL DEVELOPMENT FACILITIES AND
STRENGTHENING OF AGRICULTURAL SUPPORTING SERVICES. USADB
RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R66-77 WITH ATTACHMENT DESCRIBING PROPOSED LOAN
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POUCHED ADDRESSEES JULY 7. BOARD CONSIDERATION SCHEDULED
26 JULY.

2. ADB MANAGEMENT PROPOSING \$45.0 MILLION LOAN FROM
ORDINARY CAPITAL RESOURCES TO GOVT OF KOREA. PRO-
CEEDS WILL FINANCE FOREX COST OF FLOOD CONTROL AND AGRI-
CULTURAL DEVELOPMENT OF UPSTREAM REACHES OF NAKDONG RIVER

IN SOUTHEASTERN PART OF COUNTRY INCLUDING CONSTRUCTION AND/OR IMPROVEMENT OF FLOOD CONTROL AND DRAINAGE WORKS, IRRIGATION FACILITIES, AND LAND CONSOLIDATION AND LAND RECLAMATION WORKS; PROVISION OF AGRICULTURAL MACHINERY; STRENGTHENING OF EXTENSION SERVICES; CONSULTING SERVICES; AND STAFF TRAINING. PROPOSED TERMS ARE 27 YEAR AMORTIZATION INCLUDING 7 YEAR GRACE PERIOD, INTEREST AT RATE PREVAILING AT DATE OF APPROVAL OF PROPOSED PROJECT. GOVT OF KOREA TO BE BORROWER, MINISTRY OF CONSTRUCTION (MOC) TO BE PRINCIPAL EXECUTING AGENCY, ASSISTED BY AGRICULTURAL DEVELOPMENT CORP. (ADC), NATIONAL AGRICULTURAL COOPERATIVE FEDERATION (NACF), AND OFFICE OF RURAL DEVELOPMENT (ORD) OF MINISTRY OF AGRICULTURE AND FISHERIES.

3. ALTHOUGH INDUSTRIAL SECTOR HAS BEEN MAIN FOCUS OF KOREA'S RAPID ECONOMIC GROWTH, AGRICULTURAL SECTOR HAS ALSO DONE WELL. AGRICULTURE ACCOUNTED FOR 10 PERCENT OF TOTAL THIRD FIVE YEAR PLAN (1972-76) INVESTMENT, UP FROM 7 PERCENT IN SECOND PLAN, AND OVERALL OUTPUT DURING LATEST PERIOD ROSE AT ANNUAL RATE OF 4.7 PERCENT. SECTOR'S SHARE OF GNP WAS DOWN TO 23 PERCENT IN 1976 (FROM 40 PERCENT IN 1962), BUT AGRICULTURAL LABOR FORCE IS STILL 40 PERCENT OF COUNTRY'S TOTAL. RICE PRODUCTION ROSE 32 PERCENT DURING 1970-76 ON STRENGTH OF 20 PERCENT INCREASE IN YIELD, 12 PERCENT INCREASE IN TOTAL AREA UNDER PADDY. NEVERTHELESS, COUNTRY REMAINS DEFICIENT IN LIMITED OFFICIAL USE

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FOODGRAINS, HAVING TO IMPORT 2 TO 3 MILLION TONS ANNUALLY. FOURTH FIVE YEAR PLAN AIMS AT FURTHER 20 PERCENT INCREASE IN AGRICULTURAL OUTPUT, BUT PUTS EQUAL EMPHASIS ON DIVERSIFICATION OF OUTPUT AND IMPROVEMENT OF RURAL INCOMES AND WORKING CONDITIONS. WITHIN OVERALL OUTPUT TARGET, MAJOR EMPHASIS IS PLACED UPON WATER CONTROL, BOTH DEVELOPMENT AND IMPROVEMENT OF IRRIGATION FACILITIES AND REDUCTION OF CROP LOSSES DUE TO FLOODS.

4. IN JULY 1975 BANK APPROVED TECHNICAL ASSISTANCE (TA) PROPOSAL UNDER WHICH IT ACTED AS EXECUTING AGENCY FOR UNDP - FINANCED FEASIBILITY STUDY OF NAKDONG RIVER BASIN DEVELOPMENT PROJECT (TA NO. 144-KOR). REPORT OF JAPANCES CONSULTANTS WAS ISSUED IN JAN 1977. OVERALL PROJECT IS ONE OF COUNTRY'S LARGEST IN AREA OF WATER RESOURCE DEVELOPMENT, INVOLVING FLOOD CONTROL AND DEVELOPMENT OF AGRICULTURAL WATER MANAGEMENT FACILITIES ON ABOUT 48,000 HA., COSTING ALTOGETHER AN ESTIMATED \$340 MILLION. LARGE SCALE AND HIGH COST OF OVERALL DEVELOPMENT HAS NECESSITATED PHASING OF IMPLEMENTATION. PROPOSED PROJECT CONSTITUTES FIRST, UPSTREAM

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PHASE OF OVERALL PROJECT BASED UPON CONSULTANTS' REPORT,
AS MODIFIED BY BANK MISSION VISITING KOREA IN FEB 1977.

5. PROJECT AREA COVERS 23,220 HA. IN SOUTHEAST OF COUNTRY
ALONG BOTH BANKS OF NAKDONG RIVER BELOW BANK-FINANCED
ANDONG DAM (LOAN NO. 86-KOR, APPROVED DEC 1971), AND
REACHING NEARLY TO DAEGU, CAPITAL OF GYEONGSANGBUK
PROVINCE. POPULATION OF AREA'S 12 GUNS (COUNTIES) IS
1.7 MILLION, OF WHICH ABOUT 1.2 IN RURAL HOUSEHOLDS.
BULK OF FARMS ARE IN 0.5-1.5 HA. RANGE, WITH 80 PERCENT
BELOW 1.5 HA. NEARLY ALL ARE OWNER-OPERATED. RICE ACCOUNTS
FOR 82 PERCENT OF AREA'S 20,200 HA. OF ARABLE LAND,
ALL OF IT IN LOWLAND AREAS. HIGH YIELDING VARIETIES (HYV)
ACCOUNT FOR ABOUT HALF OF RICE HECTARAGE IN AREAS
NEEDING IMPROVEMENT OF WATER COUNTR0L, 80 PERCENT WHERE WATER
CONTROL IS ADEQUATE. BARLEY, NEXT MOST IMPORTANT CROP, IS
GROWN ON 53 PERCENT OF ARABLE LAND, MOSTLY IN LOWLAND

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AREAS IN WINTER AS A SECOND CROP WHERE WEATHER CONDITIONS PERMIT. RICE-BARLEY CROPPING SEQUENCE HAS SERIOUS TIME CONSTRAINT. PROBLEM, AGGRAVATED WHERE DRAINAGE IS POOR, IS INADEQUATE PERIOD BETWEEN RICE HARVEST AND BARLEY PLANTING IN WHICH TO PREPARE LAND. NOTWITHSTANDING PRESENCE OF ANDONG AND OTHER MULTI-FACETED DAMS, AREA IS SUBJECT TO FREQUENT HEAVY FLOODING WHICH, BESIDES ITS ADVERSE EFFECT ON CROP YIELDS, CAUSES EXTENSIVE DIRECT DAMAGE IN TERMS BOTH OF CROP DAMAGE AND LOSS OF LIFE.

6. INFRASTRUCTURE FACILITIES (ROADS, RAILROADS, AND ELECTRICITY) IN PROJECT AREA ARE GOOD AND SUBJECT TO ONGOING IMPROVEMENTS IN CONTEXT OF GOVT'S FOURTH FIVE YEAR PLAN. NUMEROUS FARMER ORGANIZATIONS ARE ACTIVE IN AREA, NACF COOPERATIVES PROVIDE CREDIT, SUPPLY, MARKETING AND STORAGE SERVICES TO MEMBERS, AND FARM LAND IMPROVEMENT ASSOCIATIONS (FLIA) OPERATE AND MAINTAIN ADC-CONSTRUCTED IRRIGATION AND RELATED FACILITIES. AREA LACKS ADEQUATE SANITARY WATER FACILITIES, BUT THIS PROBLEM BEING ADDRESSED SEPARATELY UNDER FOURTH PLAN.

7. MAIN OBJECTIVES OF PROJECT ARE INCREASE IN AGRICULTURAL PRODUCTION, ESPECIALLY FOODGRAINS, AND IMPROVEMENT OF INCOMES AND LIVING STANDARDS OF RURAL POPULATION THROUGH: (I) ELIMINATION OF RECURRING FLOOD HAZARDS, AND (II) IMPROVEMENT OF AGRICULTURAL DEVELOPMENT FACILITIES IN THOSE AREAS WHERE DEFICIENT. PROJECT COMPONENTS INCLUDE:

(A) CONSTRUCTION AND/OR IMPROVEMENT OF FLOOD CONTROL AND DRAINAGE WORKS ON 17,910 HA. TO INCLUDE BUILDING AND RAISING 345 KM. OF EARTH LEVEES AND 60 KM. OF RIVER BANK REVETMENT WORKS; IMPROVEMENT OF 60 KM. OF DRAINAGE STREAMS; AND LIMITED OFFICIAL USE

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INSTALLATION OF PUMPS AND SLUICE GATES;

(B) AGRICULTURAL DEVELOPMENT WORKS COVERING 4,488 HA., TO INCLUDE CONSTRUCTION AND/OR REHABILITATION OF IRRIGATION FACILITIES (PUMPS AND ASSOCIATED CANALS AND STRUCTURES); LAND CONSOLIDATION; AND LAND RECLAMATION;

(C) CONSTRUCTION OF 25 WAREHOUSES FOR STORAGE OF RICE AND BARLEY;

(D) PROVISION OF 850 POWER TILLERS AND IMPLEMENTS;

(E) IMPROVEMENT OF EXTENSION SERVICES AND FARMER TRAINING FACILITIES TO INCLUDE BOTH ASSIGNMENT OF ADDITIONAL GUIDANCE OFFICERS AND IMPROVEMENT OF PHYSICAL FACILITIES SUCH AS

OFFICES, CLASSROOMS, TEACHING MATERIALS, ETC.;

(F) CONSULTING SERVICES CONSISTING OF FIVE TO SIX SPECIALISTS FOR TOTAL 98 MAN-MONTHS TO PROVIDE FOLLOWING: ADVICE ON SPECIALIZED HYDROLOGIC AND RIVER HYDROLOGICS PROBLEMS; REVIEW, ASSISTANCE AND ADVICE ON DESIGN, CONTRACTING, AND CONSTRUCTION SUPERVISION; FORMULATION AND ASSISTANCE WITH FLOOD CONTROL OPERATION AND MAINTENANCE TRAINING PROGRAM; AND ASSISTANCE FOR PROJECT COORDINATION AND REPORTING ON ALL STAGES OF IMPLEMENTATION;

(G) ABOUT 20 MAN-MONTHS OF OVERSEAS TRAINING IN FLOOD CONTROL OPERATION AND MAINTENANCE PROCEDURES FOR RELEVANT STAFF, TO BE ARRANGED THROUGH CONSULTANT IN CONSULTATIONS WITH BANK.

8. ESTIMATED TOTAL COST OF PROPOSED PROJECT IS \$136 MILLION. FOREX COST, TO BE FINANCED BY BANK COMPRISES

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FOR NAC AGENCIES

(IN \$ MILLIONS): FLOOD CONTROL AND MAJOR DRAINAGE WORKS, 16.63; AGRICULTURE DEVELOPMENT WORKS, 6.79; AGRICULTURAL EXTENSION, 0.91; STORAGE AND FARM MACHINERY, 1.25; CONSULTANT SERVICES AND TRAINING, 1.43; CONTINGENCIES, 3.90; ALLOWANCE FOR PRICE INCREASES EXPECTED, 15.09

(12 PERCENT ANNUALLY, 1977-79, 10 PERCENT ANNUALLY THEREAFTER). GOVT WILL PROVIDE LOCAL CURRENCY REQUIREMENTS ESTIMATED AT \$ 91 MILLION. PROPOSED LOAN TERMS, 27 YEARS WITH 7 YEAR GRACE PERIOD, REFLECT (A) 50 YEAR ECONOMIC LIFE OF MAJOR PROJECT COMPONENTS; (B) RELATIVELY LONG GESTATION PERIOD - FULL BENEFITS NOT TO ACCRUE UNTIL EIGHTH YEAR FROM START OF PROJECT; (C) PREDOMINANTLY AGRICULTURAL AND INFRASTRUCTURAL NATURE OF PROJECT; AND (D) BANK'S RECENT PRACTICE ON IMJIN AREA DEVELOPMENT PROJECT (LOAN NO. 208-KOR) AND NAMGANG AREA DEVELOPMENT PROJECT (LOAN NO. 275-KOR) WHERE SAME TERMS WERE PROVIDED.

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9. MOC, PRIMARY EXECUTING AGENCY, IS RESPONSIBLE FOR OVERALL IMPLEMENTATION OF PROJECT. THROUGH THE INDUSTRIAL SITES AND WATER RESOURCES CORP. (ISWACO), IT WILL BE RESPONSIBLE FOR FLOOD CONTROL, RIVER IMPROVEMENT AND MAJOR DRAINAGE FACILITIES. WITH ENGINEERING STAFF OF OVER 600 AND BUDGET OF \$373 MILLION (FY 1977), MOC OVERSEES CONSERVATION, OPERATION AND MAINTENANCE OF FLOOD CONTROL AND RIVER IMPROVEMENT ON KOREA'S FIRST CLASS RIVERS. ISWACO HAS HISTORY OF SUCCESSFUL ACCOMPLISHMENTS, HAVING SERVED AS EXECUTING AGENCY FOR ANDONG DAM PROJECT, AND AS GOVT' COUNTERPART AGENCY FOR NAKDONG RIVER BASIN DEVELOPMENT PROJECT, AMONG OTHERS. OTHER EXECUTING AGENCIES, WITH AREAS OF RESPONSIBILITY ARE: ADC, FOR AGRICULTURAL DEVELOPMENT WORKS, INCLUDING IRRIGATION, LAND CONSOLIDATION AND RECLAMATION; NACF, FOR STORAGE FACILITIES AND AGRICULTURAL MACHINERY; AND ORD, FOR AGRICULTURAL EXTENSION FACILITIES. MISSION CONSIDERS THAT ALL THESE AGENCIES ARE SUITABLE, ADEQUATELY STAFFED AND EXPERIENCED TO IMPLEMENT PROJECT.

10. BORROWER WILL CHANNEL LOAN PROCEEDS TO EXECUTING AGENCIES IN AMOUNTS NECESSARY TO MEET REQUIREMENTS FOR INDIVIDUAL PROJECT COMPONENTS. FOR ADC, FUNDS WOULD BE ON-LENT AT RATE OF 7.2 PERCENT WHICH WILL PROVIDE SUFFICIENT MARGIN TO COVER NACF'S ADMINISTRATIVE COSTS. NACF WILL RELEND TO AGRICULTURAL COOPERATIVES IN ACCORDANCE WITH TERMS SATISFACTORY TO BANK (CURRENT NACF TERMS ARE 9 PERCENT INTEREST, UP TO 15 YEARS MATURITY). MOC AND ORD WILL RECEIVE RELEVANT PORTIONS OF LOAN PROCEEDS IN FORM OF NORMAL BUDGET ALLOCATION; AND MOC WILL CHANNEL FUNDS TO ISWACO BY MEANS OF PERIODICALLY REPLENISHED REVOLVING FUNDS.

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11. TO FACILITATE PROJECT IMPLEMENTATION, CENTRAL COORDINATING COMMITTEE (CCC) AND PROJECT STEERING COMMITTEE (PSC) WILL BE ESTABLISHED AT NATIONAL LEVEL TO DEAL WITH, RESPECTIVELY, INTER-AGENCY COORDINATION AND BUDGETARY MATTERS, AND MATTERS RELATED TO DESIGN, PROCUREMENT, AND CONTRACTING ISSUES NOT HANDLED IN FIELD OFFICES. IN ADDITION, LOCAL COORDINATING COMMITTEE (LCC) WILL DEAL WITH INTER-AGENCY COORDINATION AND COOPERATION AMONG FIELD LEVEL OFFICES OF PROJECT AGENCIES.

12. OFFICE OF SUPPLY OF REPUBLIC OF KOREA (OSROK) WILL ASSIST EXECUTING AGENCIES IN PROCUREMENT. PROCUREMENT OF MATERIALS AND EQUIPMENT INCLUDING CEMENT AND STEEL BARS FOR FLOOD CONTROL AND AGRICULTURAL DEVELOPMENT WORKS, FARM MACHINERY AND HYDROLOGIC EQUIPMENT, ESTIMATED TO COST \$100,000 OR MORE, WILL BE ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; ITEMS ESTIMATED TO COST LESS THAN \$100,000 ON BASIS INTERANTIONAL SHOPPING PROCEDURES. EXCEPTIONS TO COMPETITIVE BIDDING/SHOPPING PROCEDURES WOULD BE MADE IN CASE OF CERTAIN MINOR ITEMS (INCLUDING UTILITY PASSENGER VEHICLES AND MOTORCYCLES, ETC.) WHOLLY MANUFACTURED IN KOREA AND AVAILABLE AT REASONABLE COST. DISBURSEMENTS FOR SUCH ITEMS WILL BE LIMITED TO THEIR FOREX CONTENT, PRESENTLY ESTIMATED TO AVERAGE 65 PERCENT OR APPROXIMATELY \$270,000. CIVIL WORKS CONTRACTS WOULD BE AWARDED TO PRE-QUALIFIED LOCAL CONTRACTORS SELECTED BY LOCAL COMPETITIVE BIDDING PROCEDURES SATISFACTORY TO BANK ON GROUND THAT THESE

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PROJECT COMPONENTS ARE WIDELY SCATTERED, RELATIVELY SMALL-SCALE IN NATURE, AND WELL WITHIN CAPABILITIES OF KOREAN CONTRACTORS. APPROACH IS BELIEVED CONSISTENT WITH BANK'S DOMESTIC PROCUREMENT POLICIES AND ACCORDS WITH PRACTICE ADOPTED IN NAMGANG AREA DEVELOPMENT PROJECT (APPROVED IN SEPT 1976). ABOUT 20 SUCH CONTRACTS, WITH TOTAL FOREX COMPONENT OF \$36 MILLION, ARE EXPECTED TO BE ISSUED OVER FOUR-YEAR CONSTRUCTION PERIOD.

13. PROPOSED PROJECT, WHICH HAS BEEN ACCORDED HIGH PRIORITY BY KOREAN GOVT, IS EXPECTED INCREASE AREA FOOD-GRAIN OUTPUT BY 32,000 M.T. ANNUALLY BOTH THROUGH PREVENTION OF LOSSES FROM FLOODING AND DIRECT BENEFITS TO PRODUCTION. AVERAGE RICE YIELD WOULD RISE FROM 3.6 TO 4.5 M.T./HA. BENEFITS WILL ACCRUE PRIMARILY TO LOW INCOME FARM FAMILIES IN AREA OF SMALL FARMS. AVERAGE NET FARM INCOME (5.7 PERSONS PER FARM FAMILY) LIMITED OFFICIAL USE

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WOULD RISE BY 48 PERCENT, FROM \$1,597 TO \$2,370, ONLY SLIGHTLY OFFSET BY INCREASE IN WATER CHARGES FROM \$37 TO \$120 ANNUALLY. PROJECT IS TECHNICALLY SOUND AND ECONOMICALLY VIABLE WITH ESTIMATED ECONOMIC INTERNAL RATE OF RETURN OF 14 PERCENT. WHILE FARM LABOR REQUIREMENTS WOULD NOT RISE SIGNIFICANTLY, CONSTRUCTION OF PROJECT ITSELF WOULD REQUIRE AN ESTIMATED 4 MILLION MAN-DAYS OF UNSKILLED LABOR, OPERATION AND MAINTENANCE OF FACILITIES AFTER IMPLEMENTATION WOULD REQUIRE 0.1 MILLION MAN-DAYS ANNUALLY, AND ADDITIONAL EMPLOYMENT OPPORTUNITIES WOULD ARISE IN MARKETING AND PROCESSING OF INCREASED PRODUCTION. FINALLY, IN AREA OF NON-QUANTIFIABLE BENEFITS, PROJECT WILL PROTECT LIFE AND PROPERTY AND REDUCE HEALTH HAZARDS ASSOCIATED WITH ANNUAL FLOODING. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

14. REQUEST AMEMBASSY SEOUL'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JUL 72. STULL

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Message Attributes

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